

## TEACHERS' RETIREMENT BOARD

### INVESTMENT COMMITTEE

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SUBJECT: Alternative Investments  
Policy and Procedures

ITEM NUMBER: 4

ATTACHMENT(S): 5

ACTION: X

DATE OF MEETING: June 3, 1998

INFORMATION: \_\_\_\_\_

PRESENTER(S): Mr. Desrochers

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### EXECUTIVE SUMMARY

One of the 1997-98 objectives approved for the Investment Branch was to review, evaluate, and revise the policies and procedures for the Alternative Investment Program. The first element was to define the primary role of alternative investments. Staff and the advisor presented this component of the process at the May 1998 Investment Committee Meeting. The second element is revising the policies and procedures.

Attachment 1 contains policies and procedures to be used in the management of the alternative investment program. The policies are intended to guide the investment activities of the Board, and are designed to be static in nature. Policies will be returned to the Investment Committee prior to changes being implemented. Procedures direct the activities of staff, and describe the policy implementation process. Procedures must be dynamic in nature to facilitate the adaptation to the changing alternative investment marketplace.

Staff has provided several items to enhance and clarify the Policy and Procedures Manual. Attachment 2 contains a Glossary of Terms, Attachment 3 contains Terms and Conditions, and Attachment 4 contains the Alternative Investment Desk Manual.

### **RECOMMENDATION**

Staff and Pathway Capital Management recommend that the Investment Committee approve the Alternative Investment Policies and Procedures Manual by adopting the attached resolution (Attachment 5).

## INTRODUCTION

In accordance with the Investment Management Plan, California State Teachers' Retirement System (STRS) has a commitment to illiquid equity and equity related funds actively managed by specialized professionals to achieve a total rate of return superior to public equity vehicles.

The portfolio holding these assets is identified as Alternative Investments. This portfolio can include limited partnerships, direct investments, co-investments, and secondary interests in the following market segments:

- Leveraged Buyout
- Venture Capital
- Distressed Debt
- Mezzanine Financing
- Natural Resources

The primary objective for the alternative investment portfolio is to provide enhanced investment returns over those available in the public market. The increased risk associated with the structure, liquidity, and leverage require a higher net total rate of return.

The STRS' Board established the asset allocation and strategic objectives for the alternative investment portfolio. The management of all types of investments are performed by internal and external professionals which are monitored and evaluated by internal investment officers and an external alternative investment advisor. The internal investment officers operate under the direction of the Chief Investment Officer or designee. The external alternative investment advisor reports directly to the STRS' Board.

This manual will establish the policies and procedures involved in the management of investment of Alternative Investments. The policies are designed to set boundaries for expected performance, diversification, and investment structure. The procedures are designed to provide guidelines for the implementation of the approved policies. A flow chart is provided to establish context for the policies and procedures presented.

## **ALTERNATIVE INVESTMENT PORTFOLIO POLICIES**

The following represent the approved policies to be utilized in the management of the alternative investment segment of the total investment portfolio. The policies are designed to set boundaries for the expected performance and structure. Policies approved by the STRS' Board cannot be altered without explicit direction from the STRS' Board.

1. The alternative investment portfolio of the California State Teachers' Retirement System is invested in a prudent manner for the sole benefit of STRS' participants and beneficiaries in accordance with the Teachers' Retirement Law and other applicable statutes.
2. The alternative investment portfolio shall be invested to provide enhanced investment returns. Generating high rates of return shall always be the primary objective with diversification being an ancillary benefit.
3. Diversification within the alternative investment portfolio is critical to control risk and maximize returns. The specific investments shall be aggregated, evaluated, and monitored to control unintended biases. Diversification can occur across the following parameters.
  - A. **Market Segment** -- The market segments are defined as Leveraged Buyout, Venture Capital, Distressed Debt, Mezzanine Financing, and Natural Resources.
  - B. **Vintage Group** -- Vintage group is defined by the closing of the limited partnership. Investments within market segments shall be stratified by vintage group to mitigate the impact of fund flow trends within each segment.
  - C. **Economic Sector** -- Economic sectors are depicted by the standard Value-Line categories such as finance, technology, medical health, or electronic.
  - D. **Geographic Location** -- Geographic regions are defined as the location of the head office of the company. The geographic breakdown is expressed as West Coast, Southwest/Rockies, Southeast, Northeast, Mid-West, Mid-Atlantic, United Kingdom, Europe, Canada, and Other International.
4. A strategic target and range shall be established for the market segment criteria. The target and range may change over time as conditions warrant as approved by the Investment Committee. The target and range criteria are included as Exhibit 1. The diversification criteria will be reviewed on an annual basis.

5. Investments shall not be approved for the sole purpose of aligning one specific diversification range. Projected rate of return, risk, and other policies shall receive consideration in addition to diversification.
6. No investment vehicle or activity prohibited by the Investment Resolution adopted by the Board in 1984, as amended from time to time, will be authorized for the alternative investment portfolio.
7. Authorization letters which indicate who may sign on behalf of STRS shall be included at the time of closing. Whenever a change in authorized signers take place, the limited partnerships shall be notified in writing within 24 hours in the event of termination and as soon as possible in the event of a newly authorized signer(s).
8. Prior to being processed by the Operations Area, all cash contribution and stock sales transactions tickets shall be signed by two Investment Officers.
9. Graduated limitations of daily trading authority for aggregate alternative investment portfolio transactions are as follows:
 

Associate Investment Officer	\$ 1 million
Investment Officer I	\$ 5 million
Investment Officer II	\$ 10 million
Investment Officer III	\$ 20 million
Director of Alternative Investments	\$ 50 million
Chief Investment Officer	\$200 million
10. The rejection decision for limited partnerships, direct investments, co-investments, and secondary interests is delegated to staff with the stipulation that all limited partnerships receive equal opportunity and subject to the appropriate amount of due diligence as defined in the alternative investment procedures.
11. The approval decision for “follow-on limited partnerships” is delegated to staff considering the following stipulations:
  - A. Applicable only to limited partnerships sponsored by general partner(s) included in the STRS' alternative investment portfolio.
  - B. Due diligence process shall be consistent and appropriate as defined in the alternative investment procedures.
  - C. Maximum amount of the commitment shall not exceed \$400 million or 20% of the total amount of the partnership capitalization, whichever is less.

- D. A final report will be presented to the Investment Committee as soon as practical after the commitment is completed.
- 12. The approval decision for “new limited partnerships” is delegated to staff considering the following stipulations:
    - A. Due diligence process shall be consistent and appropriate as defined in the alternative investment procedures.
    - B. Maximum amount of the commitment shall not exceed \$100 million or 20% of the total amount of the partnership capitalization, whichever is less.
    - C. A final report will be presented to the Investment Committee as soon as practical after the commitment is completed.
  - 13. The approval decision for co-investments is delegated to staff considering the following stipulations:
    - A. Co-investments shall be made on the same (or better) terms and conditions as provided to the partnership.
    - B. Due diligence process shall be consistent and appropriate as defined in the alternative investment procedures.
    - C. Maximum amount of the commitment shall not exceed \$50 million or 30% of the STRS' commitment to that partnership, whichever is less.
    - D. A final report will be presented to the Investment Committee as soon as practical after the commitment is completed.
  - 14. The approval decision for “secondary limited partnership” interests is delegated to staff considering the following stipulations:
    - A. Due diligence process shall be consistent and appropriate as defined in the alternative investment procedures.
    - B. Maximum amount of the commitment shall not exceed \$50 million or 20% of the total amount of the partnership capitalization, whichever is less.
    - C. A final report will be presented to the Investment Committee as soon as practical after the commitment is completed.
  - 15. Distributions received in the form of stock shall be managed as identified in the alternative investment procedures. All sales will be subject to the trading limitations shown in the internal equity policy and procedure manual.
  - 16. Incorporate for reference, Item 4 of May 6, 1998, Investment Committee meeting.

## **ALTERNATIVE INVESTMENT PORTFOLIO PROCEDURES**

The Board adopted the Investment Management Plan, which was originally drafted in 1986, and has been periodically updated to reflect the changes that have occurred in the investment strategy and policy. The Investment Management Plan mandates the investment of plan assets in four broad categories: public equity, public debt, private equity, and private debt.

1. **STRS' Board** -- Approves the size and scope of the alternative investment program and establishes the asset allocation target and range. Directs the Chief Investment Officer (CIO) to periodically report on the compliance with established policies and procedures.
2. **Chief Investment Officer** -- Establishes the program guidelines in such areas as (1) evaluating limited partnerships, (2) declining or approving of limited partnerships (within the amounts delegated by the Board), (3) establishing targets and ranges for diversification purposes as shown in Exhibit 1, and (4) controlling the stock sales program.
3. **Investment Officer** -- The alternative investment unit receives and reviews offering memoranda from a variety of sources. The offering memoranda provide an overview of the investment philosophy, strategy, and terms and conditions of the proposed limited partnerships. After the investment officer(s) review and analyze the principal terms and conditions of the proposed limited partnership and major accomplishments of the management group, all of the pertinent data is entered into a database.
4. **Investment Officer** -- After analyzing the offering memoranda, if there is sufficient interest and compatibility, the investment officer may arrange a meeting with the general partners to discuss the proposed limited partnership. Subsequent to this meeting, the investment officer(s) will evaluate the merits of the proposed limited partnership's investment strategy, terms and conditions, management's qualifications, and previous track record. A ranking is assigned between one to ten, with one being the lowest and ten the highest.
5. **Investment Officer and/or Advisor** -- Under the supervision of the Director of Alternative Investments, the staff and/or advisor may be asked to conduct due diligence in accordance with but not limited to the following aspects:
  - A. Experience working together as a team
  - B. Identifiable track record
  - C. Special skills or industry expertise
  - D. Size of proposed fund in comparison to previous experience

- E. Well defined and realistic investment strategies
  - F. Ability to realize gains with successful exit strategies
  - G. Ability to add value through revitalizations, acquisitions, or other strategies.
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- 6. **Investment Committee or Chief Investment Officer** -- After completion of the due diligence process, the limited partnership commitment will be approved or declined within delegation amounts listed in sections 11 through 14 of the alternative investment policy section.
  
  - 7. **Director of Alternative Investments** -- After approval of a commitment to an investment, STRS will analyze the terms and conditions of the limited partnership. Any terms which are identified as potentially unfavorable or inconsistent with STRS' goals and objectives are then discussed and negotiated with the general partners of the proposed limited partnership. The STRS may decline participation in an investment if terms considered to be "deal breakers" cannot be resolved in a satisfactory manner.
  
  - 8. **Director of Alternative Investments and STRS Legal Counsel** -- While negotiating terms and conditions of the legal limited partnership agreement documents, STRS' legal counsel will be appraised of the negotiation progress periodically. When the documents are acceptable to the interested parties, the alternative investment advisor and STRS' legal counsel will issue written documentation. If any of the terms are identified as unacceptable or objectionable, then STRS or the advisor will enter into additional negotiations with the general partners. When all terms have been finalized and approved by all parties, the documents are forwarded to the Chief Executive Officer or designee for review and signature.
  
  - 9. **Director of Alternative Investments** -- The Director of Alternative Investments or designee will attend advisory board meetings in which STRS holds an advisory board seat. Attending the meetings will allow STRS to monitor its interest and enhance the value of information reporting with the general partner. Attendance at all meetings will be coordinated with the advisor.
  
  - 10. **Investment Officer** -- STRS' limited partnership investments periodically request cash contributions (capital call) from the limited partners. The investment officer receives notice of a capital call on the limited partnership letterhead with an authorized signature. Capital call notices include details on the amount of cash requested, date of transfer, purpose of call, and wiring instructions.

The capital call notices are very closely scrutinized by the investment officers. The notices are inspected to make certain they include the appropriate signatures and contain all of the information necessary to effect the wire transfer. Any discrepancies identified must be satisfactorily explained prior to processing each capital call notice.

11. **Investment Officer** -- After confirmation of the capital calls amount due, date of transfer, and wire instructions. A purchase transaction form (Exhibit 2) is then completed and signed. The purchase transaction form plus a copy of the capital call notice is forwarded to the operations unit for processing. The purpose of the purchase transaction form is two-fold: 1) to notify the custodian to schedule payment of the capital call; and 2) to notify the cash management function in the Operations Unit to consider the contribution in the cash forecast.
12. **Investment Officer** -- STRS receives periodic cash distributions as a result of its participation in the limited partnership investments. Notices of cash distributions are sent on the partnership letterhead and contain information regarding date of distribution, amount of distribution, components of the distribution including return of cost, gain, interest and dividends, and a description of the source of the distribution. The investment officer reviews the distribution notice and prepares a cash distribution form (Exhibit 3) to the master custodian. The purpose of the cash distribution form is two-fold: 1) to notify the custodian to expect receipt of the funds, including proper accounting treatment; and 2) to notify the cash management function in the Operations Unit to consider the distribution in the cash forecast.
13. **Investment Officer** -- STRS receives periodic stock distributions as a result of its participation in the limited partnership investments. The stock distribution notices shall identify the name of the partnership making the distribution, the name of the stock, number of shares distributed, the closing price of the stock on the distribution date, a cost basis per share, and the name of the broker (if any) handling the stock distribution. The investment officer prepares a stock distribution form (Exhibit 4) notifying the master custodian of the stock distribution. The stock distribution form identifies the partnership making the distribution, name of stock, number of shares, fund number, trade date, settle date, stock cusip, price per share, total cost, and method of delivery.
14. **Investment Staff** -- A cash database which shall be updated, at least monthly, to reflect all cash contributions and distributions, stock distributions, and stock sales activity for each limited partnership. The investment staff performs a monthly reconciliation with the master custodian and advisor to verify that all transactions are accurately recorded. The reconciliation is analyzed with all discrepancies discussed and corrected.



15. **Investment Staff** -- The fund performance worksheet (Exhibit 5) shall be completed on a quarterly basis. The data contained in the worksheet provides specific performance measurements including: net gain/loss in funds, total return ratio, distribution return ratio, and annual IRR.
16. **Investment Staff** -- A market pricing report (Exhibit 6) shall be completed and forwarded to the master custodian on a quarterly basis. This report contains information that allows the investments made by the limited partnerships to be carried at a market valuation rather than strictly a cost basis.
17. **Investment Officer** -- The limited partnerships' performance and portfolio are closely monitored. Part of the monitoring process includes discussions with the general partners at least annually either in person or via telephone. These discussions enable the investment officer the opportunity to effectively evaluate performance, investment strategy, and to interact one-on-one with the general partners. Additional reports will be provided as requested by the Chief Investment Officer, Teachers' Retirement Board, or Internal Audit Department.

Attchment 2 is not available in electronic format at this time.

# Partnership Investing

## Terms and Conditions:

### A. General Terms:

An investment in a partnership is governed by a set terms and conditions that outline the legal responsibilities of the participants and define the economic arrangements between the investor (limited partner) and the partnership manager (general partner). The governing laws of the partnership agreement impose a passive role to the limited partners to the extent that they should have limited responsibilities if they do not get involved in the management of the partnership. These contractual arrangements are long term in nature which enable the partnership to have a reasonable time horizon to wisely invest capital and harvest investments.

The terms of the partnership are proposed by the general partner and are critical to the economic performance of the partnership. Although all of the terms are important, two key components should be given serious consideration by the limited partners. The first is alignment of interest between the general partner and the limited partners. The second is consideration of market conditions relating to the demand for investment in this asset category.

There are basically three categories of terms and conditions in every partnership:

1. Category one relates to the overall fund management and:
  - limits the amounts of investment in a single portfolio company;
  - limits the use of debt by the general partners;
  - relates to co-investments and multi-fund management by the general partners; and
  - relates to re-investment of profits and/or capital gains.
2. Category two relates to the activities of the general partners and:
  - limits the ability of the general partners to invest personal funds in the portfolio companies;
  - limits the sale of partnership interests owned by general partners to other investors;
  - limits the fund raising activities of the general partners to certain pre-determined conditions;
  - restricts outside activities by the general partner;
  - relates to the addition of the management team or other partners; and
  - deals with the vesting interest of the management team in the partnership.

3. Category three deals with restrictions on the type of investments and:
  - pre-determines the type of assets the fund might invest in;
  - limits the ability of the general partners to invest in public companies;
  - limits the geography of the investments; and
  - imposes other limitations that will secure the portfolio investment strategy.

## **B. Terms and Conditions:**

The private equity market has been paralleled by a marked level of sophistication on the part of investors and general partners. To a great extent, market forces drive the bargaining of the economics of the partnership terms. Listed below are some industry fundamentals required by the limited partners.

1. **Aggregation of profits and losses:**  
Ensures a fairer profit sharing between the general partner and the limited partners. This calculation is based on the entire performance of the portfolio rather than on a deal by deal basis.
2. **Lookback provision:**  
Guarantees that the stated profit allocation is met at the end of the partnership's term with respect to the limited partners.
3. **Sliding management fees:**  
Permits phasing fees based on the average age of the partnership and its market maturity. Superior performance of the general partner should primarily be compensated through the carried interest provisions.
4. **Transaction fee offsets:**  
Requires that transaction fees which are earned are used to reduce the management fees paid by the limited partners.
5. **Just in time capital call:**  
This practice calls capital as needed on a transaction per transaction basis.
6. **Valuation of distributions:**  
Historically, partnerships valued stock distributions based on the value of the stock on the date of the distribution. The current trend is to value the distribution based on a moving average which is made up of a few days of trading activity.
7. **Expansion of advisory board role:**  
Advisory boards play an important role in governance issues relating to the fundamental aspects of each fund such as valuation and management of conflict of interests. STRS' Policy and Procedures Manual requires that staff and/or the

advisor play an active role on some of these boards, particularly for Tier One funds. Staff is implementing an annual review process to rank the funds.

**8. Key man provisions:**

Limited partners are seeking the right to suspend the funding of the partnership if some of the key people leave the firm. These provisions are designed to assure continuity of the firm and to assure that success, if related to an individual, stays within the firm.

**9. Other provisions:**

Other provisions are designed to protect the limited partners in the case of fraud or negligence of the general partners. There are divorce provisions that might be negotiated on a case-by-case basis depending on each particular partnership and circumstance.

**10. Indemnification control provisions:**

Limits the circumstances where the general partners are indemnified by the limited partners by eliminating indemnification for illegal activities .

## **DUE DILIGENCE REFERENCE LIST**

To:

Re:

In connection with our continuing review regarding a potential investment by the CalSTRS, please furnish the information listed below:

### **ORGANIZATIONAL STRUCTURE**

1. Provide brief descriptions (including ownership) and organizational charts of all entities related to the Partnership, the General Partner, the Management Company, or in which the individual general partners have an interest. Show and describe any ownership, operational or affiliate relationships.
2. Provide a management structure chart of the General Partners. Also, provide details of the arrangements between the General Partner and the Management Company and the reasons for this structure.
3. Provide detail on the General Partner and management Company overhead expenses necessary to conduct the activities of the Partnership.

### **KEY PEOPLE**

4. Describe the duties and responsibilities of each partner and key professional.
5. How often do the key individuals meet and what is covered in the meetings?
6. Describe the expertise (i.e., operation, finance, industry segment specialization, etc.) for each partner and key professional of the General Partner.
7. Provide the percentage of time dedicated by each professional to the following:
  - a) Generating deal flow;
  - b) Reviewing opportunities;
  - c) Conducting due diligence;
  - d) Negotiating and structuring;
  - e) Preparing internal paperwork (i.e. investment recommendations);
  - f) Administration;
  - g) Other internal;
  - h) Outside activities; and
  - i) Monitoring portfolio companies.

8. List the number of boards each sits on and the number of meetings per month for both portfolio and non-portfolio companies.
9. What are the outside activities, with time commitments, of each general partner and professional?
10. How much time is necessary to monitor current investments?
11. Describe compensation, retention programs, and employment agreements of each key person.
12. Provide forecasted additions, departures, and promotions of key individuals.
13. Describe all the additions and departures (including reason) of partners and other professionals from the General Partner and affiliates over the last five years.
14. Give details of any succession plans.

### **COMMUNICATION/DECISION MAKING**

15. Describe your internal discussion and review process for screening and selection of potential investments.
16. Who will lead negotiation talks?
  - a) with sellers
  - b) with financing sources.
17. What methods will be employed to resolve conflicts between the individual general partners? Provide examples of how this method has been used in the past.

### **CONCEPT/STRATEGY/DISCIPLINE**

18. How has your investment criteria changed since the \_\_\_\_\_ fund and does it relate to the proposed fund? Explain briefly.
19. Describe the process you use to identify attractive industry niches, and what characteristics you look for in an industry niche.
20. What industries, if any, will you avoid? and why?
21. What characteristics do you look for in an acquisition candidate?
22. Explain the effect a recessionary environment has on your investment criteria and strategy.
23. What are your primary sources of deal flow? What role will each of the individual general partners play in generating deal flow?

24. Will a control position typically be obtained? If not, how does the General Partner anticipate it will be able to take an active role in the management of, and have an influence on the operation of, portfolio companies?
25. Is outside financing obtained in most transactions? If so, provide a list of financing sources which you have a continuing relationship with and expect to work with in the future.
26. How do you decide when and if to exit an investment? By consensus or other method?
27. What are the anticipated exit options for Partnership investments?
28. On average, what percentage of equity interest has been obtained in portfolio companies? How often was a control position obtained? Will this change in the proposed fund?
29. What is the forecasted performance of the proposed fund, and on what basis is it determined?
30. What differentiates the General Partner from other venture capital fund investors? Include a discussion as to who you see and who has been your competition.

### **INTERNAL DUE DILIGENCE PROCESS**

31. Has your policy/procedure for due diligence changed over time? If so, how?
32. How is your due diligence process typically staffed and conducted?
33. What is the typical length of time involved in the due diligence process of a portfolio investment?
34. What are critical deal killers?
35. Provide a flow chart of the investment process from origination to investment.
36. Provide names of outside experts used in the due diligence process.
37. Do you require audited statements from portfolio companies? If not, explain.

### **VALUE ENHANCEMENT OF PORTFOLIO COMPANIES**

38. What hands-on management responsibilities have the individual general partners had in portfolio companies? Give examples.
39. Briefly explain your strategy for adding value to portfolio companies. Please list specific techniques employed to improve the operations of acquired companies.



40. How much involvement have you had and how successful have you been in building companies that were non-profitable at the time of initial investment?

## **RISK MANAGEMENT**

41. What formal procedures are established for risk reduction with respect to portfolio companies? Specifically, how would a failing company be dealt with? When and how would outside experts be brought in? Please give examples with prior failed investments.
42. Given prior failed investments, describe your procedures to prevent these types of failures in the future.
43. What criteria do you look for when analyzing a start-up company for possible investment? What precautions do you take to limit your risk when investing in start-up companies?
44. Does the General Partner carry insurance against lawsuits by co-investors, directors, management, and shareholders of portfolio companies? If so, please briefly describe such coverage.
45. Briefly describe any current, pending or threatened litigation (including, but not limited to, any SEC, FCC or other regulatory investigations, actions or consent decrees) which involves any of the key individuals of the General Partner, the Management Company or any affiliated entities.
46. Have any of the key individuals, the General Partner, the Management Company, or any affiliated entities ever (i) filed for bankruptcy or (ii) had any judgments entered against them? If yes, please describe the circumstances. Also, describe all settlements of legal action involving the General Partner, the Management Company, the individual general partners or any affiliates.
47. Given the large number of investments made by the General Partner, how are portfolio investments monitored or otherwise kept track of? How do you rank and prioritize your monitoring of and attention paid to portfolio companies?
48. What types of projections are required of portfolio companies? How often are projections compared against actual performance? What is done if projections are not achieved?
49. What types of financial and management reports are required from portfolio companies. How often?
50. How often do you meet with management of portfolio companies?

## **PORTFOLIO COMPANIES - MANAGEMENT COMPENSATION**

51. What is your policy concerning key management ownership of stock in portfolio companies and how is price determined?

52. What are typical compensation packages you design for executives of portfolio companies?
53. Do you insist on employment agreements and/or non-compete agreements with key executives of portfolio companies? Please describe and provide examples. Also, please describe any exceptions and the result of current status.
54. What types of performance hurdles do you establish for management compensation?
55. Have key managers with a stock interest left any prior portfolio companies as a result of your involvement and if so, why?
56. What type of management succession plans are developed for portfolio companies?

### **PRIOR INVESTMENTS**

57. Confirm that the investment list provided to us regarding \_\_\_\_\_ includes only and all investments made by the general partners.
58. List those investments made by each key individual of the General Partner driven exclusively by return on investment objectives. Briefly explain.
59. Describe the management fee and carried interest terms of each prior fund.
60. Describe any fees, other than the management fee, charged to Limited Partners or portfolio companies in prior funds. Also, provide the amounts, identified by type of fee and portfolio company, received for each year.
61. List the originator of each prior investment (which general partner or professional) for the \_\_\_\_\_ prior funds. Also, briefly describe the source of each transaction (affiliated business broker, unaffiliated business broker, direct company contact, etc.)
62. Provide current fair market valuations for portfolio companies for the \_\_\_\_\_ prior funds. Provide schedules and back-up for the methodology employed, including updated summary financial information for each portfolio company valued.
63. For all IRR calculations, describe the type and amount of discounts taken (i.e. minority, restricted stock, etc.).
64. For portfolio companies that have had an initial public offering, provide the price at which the security was originally issued and date, and its current market price.
65. For each investment made by the \_\_\_\_\_ prior funds, provide a schedule of all investment cash flows from initial investment through exit (or to date for unliquidated investments) along with the date of each cash flow. Include the most recent valuation of the equity of unliquidated investments as a cash inflow as of the valuation date.

- a) Include summary information for the following: fund name, portfolio company name, industry, total capital invested, a valuation of unliquidated companies, and the IRR on investment for each;
  - b) For investments made in more than one security of a portfolio company, provide the requested cash flows and IRR calculations on a combined security basis;
  - c) To facilitate review, please indicate which investments are carried at cost and which have been or are likely to be written off as well as explanations.
66. Provide schedules displaying the data used to calculate the IRR to investors for all prior funds. Include the dates and amounts for each cash flow (i.e., capital call, management fee payment and other fees charged directly to the Limited Partners, if any, and distributions), and label each.

### **PARTNERSHIP INVESTORS**

67. Please provide the most recent investor list available including the amount committed by each investor, if any, and the date of commitment. Also, identify potential investors and their potential investment size and likelihood of investments to the extent you can.
68. When is a final closing anticipated?
69. What amount of commitments is necessary to allow an initial closing?

### **INVESTMENT TERMS OF THE PARTNERSHIP**

70. Please provide the most recent drafts of the Limited Partnership, Subscription, and management agreements, if available. Also, provide a draft of the partnership agreement of the General Partner.
71. Have any investors in the Partnership received any side agreements or rights, whether written or oral, that are not contained in the Limited Partnership agreement? If so, please provide a copy of the written agreements and a full description of oral agreements.
72. Will The Partnership agree to prohibit investment in entities which are South Africa related or connected, or permit an investor to opt out of investments related to South Africa?
73. Will the Partnership agree to prohibit investments involving hostile takeovers, or permit an investor to opt out of investments of this nature?
74. What co-investment opportunities are available to Limited Partners in the Partnership? Have any existing investors requested and/or received any agreement, whether written or oral, as to preferential co-investment rights?

75. Please list all fees that can be charged by the General Partner, or any affiliate, to Limited Partners or portfolio companies other than the management fee and carried interest (such as transaction, monitoring, or consulting fees, etc.)
76. Will the General Partner and its principals conduct any outside fee-based activities, such as investment banking, consulting, etc.?
77. Will the Partnership be responsible for any portion of the organizational expenses of the Partnership? If so, describe the estimated amount and a description of these expenses.
78. Estimate annual operating expenses for which the Partnership is responsible. Please itemize this estimate into the major components.

### **REFERENCE CHECK INFORMATION**

79. Provide names, business addresses, and phone numbers of partners and key professionals who have left the General Partner or any affiliate in the last five years.
80. List and provide the contact name and phone number for each institutional investor that provided equity capital for prior acquisitions.
81. Provide the contact name and phone number for each institutional investor committed to the Partnership.
82. Provide the names, business addresses and phone numbers of CEO's of five successful and five failed portfolio investments.
83. Provide the names, business addresses and phone numbers of any operating executives or other persons whom you expect to utilize extensively in the management of portfolio companies acquired.

Although certain of the information may have been provided previously in various formats, it is necessary to have the information as described above. We request that you provide updates and clarifications as necessary to the information you have furnished to us to date, so that it remains accurate as we proceed with our process.

Please let us know if you are unable to provide any of the above listed information and the reason for its unavailability. In order to facilitate a timely review of the information, please forward the material as it becomes available. Feel free to call us if you have any questions.

RESOLUTION  
OF THE  
TEACHERS' RETIREMENT BOARD  
INVESTMENT COMMITTEE

SUBJECT: Alternative Investment Policy Manual Update.

WHEREAS, the Investment Committee of the Teachers' Retirement Board is responsible for recommending to the Board, investment policy and overall investment strategy; and

WHEREAS, the State Teachers' Retirement System has contracted with Pathway Capital Management to perform ongoing alternative investment consulting services; and

WHEREAS, Pathway Capital Management and the STRS' Alternative Investment Staff have reviewed and revised the Alternative Investment Policies; and

WHEREAS, the Investment Committee has received and reviewed the Alternative Investment Policy and Procedures Manual and heard oral presentations from staff and the consultant; and

WHEREAS, the Staff has recommended the adoption of the Alternative Investment Policies; Therefore be it

RESOLVED, that the Investment Committee of the Teachers' Retirement Board adopts the Alternative Investment Policies including staff delegations as follows:

- "Follow-on limited partnerships" in an amount not to exceed \$400 million or 20% of the total amount of the partnership capitalization, whichever is less.
- "New Limited Partnerships" in an amount not to exceed \$100 million or 20% of the total amount of the partnership capitalization, whichever is less.

- “Co-Investments” in an amount not to exceed \$50 million or 30% of the STRS’ commitment to that partnership, whichever is less.
- “Secondary limited partnership interests” not be exceed \$50 million or 20% of the total amount of the partnership capitalization, whichever is less.

Adopted by:

Investment Committee

on \_\_\_\_\_

\_\_\_\_\_  
James D. Mosman  
Chief Executive Officer